



HILLCREST
A REMARKABLE RETIREMENT COMMUNITY®

R E C E I V E
OCT 18 2011

CONTINUING CARE
CONTRACTS BRANCH

STATE OF CALIFORNIA DEPARTMENT OF SOCIAL SERVICE

ANNUAL REPORT

CONTINUING CARE LICENSING DIVISION

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2011

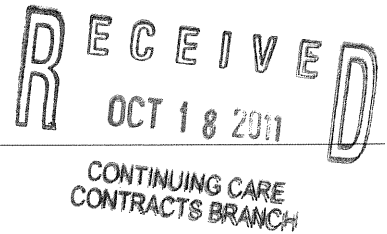
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HANSEN HUNTER & CO. P.C.

Certified Public Accountants



HANSEN HUNTER & CO. P.C.
Certified Public Accountants



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brethren Hillcrest Homes
La Verne, California

We have audited the accompanying continuing care reserve report ("Reports") of Brethren Hillcrest Homes (the "Company"), as of June 30, 2011. These Reports are the responsibility of the Company's management. Our responsibility is to express an opinion on the Reports based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the Reports are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reports. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Reports. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Reports were prepared for the purpose of complying with California Health and Safety Code section 1792 and are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses.

In our opinion, the Reports presents fairly, in all material respects, the liquid reserve requirements of the Company as of June 30, 2011, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

This report is intended solely for the information and use of the Company and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purposes. However, this report is a matter of public record and its distribution is not limited.

Hansen Hunter & Co. P.C.

October 5, 2011

PART 1
ANNUAL PROVIDER FEES

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	321
[2]	Number at end of fiscal year	313
[3]	Total Lines 1 and 2	634
[4]	Multiply Line 3 by ".50" and enter result on Line 5	x.50
[5]	Mean number of continuing care residents	317
All Residents		
[6]	Number at beginning fiscal year	408
[7]	Number at end of fiscal year	416
[8]	Total Lines 6 and 7	824
[9]	Multiply Line 8 by ".50" and enter result on Line 10	x.50
[10]	Mean number of <i>all</i> residents	412
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	76.94%

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>	<u>TOTAL</u>
[1]	Total Operating Expenses
	\$19,011,154
[a]	Depreciation
	\$2,637,144
[b]	Debt Service (Interest Only)
	\$2,611,857
[2]	Subtotal (add Line 1a and 1b)
	\$5,249,001
[3]	Subtract Line 2 from Line 1 and enter result
	\$13,762,153
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)
	76.94%
[5]	Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)
	\$10,588,601
	x .001
[6]	Total Amount Due (multiply Line 5 by .001)
	\$10,589

PROVIDER: BRETHREN HILLCREST HOMES
COMMUNITY: HILLCREST

PART 2
CERTIFICATION BY OFFICER



October 5, 2011

RECEIVED
OCT 18 2011
CONTINUING CARE
CONTRACTS BRANCH

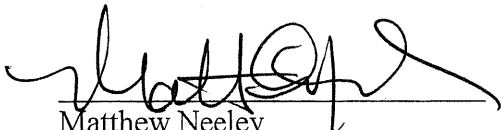
State of California
Continuing Care Contracts Branch
California Department of Social Services
744 P. Street, M.S. 10-90
Sacramento, California 95814

This Certification Notice is submitted by Brethren Hillcrest Homes; to The State of California, Community Care Licensing Division, Continuing Care Contracts Branch, pursuant to the requirements of the Continuing Care Contract Annual Reserve Report, for the year ended June 30, 2011. Our Certificate of Authority is #069.

To the best of my knowledge, after a review of the enclosed information I certify the following to be true, complete and correct:

1. The Annual Report is correct.
2. Each continuing care contract form in use or offered for new residents has been approved by the Department.
3. The required reserves are being maintained.

Authorized Representative


Matthew Neeley
President and Chief Executive Officer

PART 3
EVIDENCE OF FIDELITY BOND

ACORD™ CERTIFICATE OF PROPERTY INSURANCEDATE
6/16/2010

PRODUCER PH (800)745-3947 x 139 FAX (559)733-5612
his and Associates Insurance Brokers
PO Box 431 Juliap@since1927.com
License #0797015
Visalia CA 93279

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION
ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER.
THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE
COVERAGE AFFORDED BY THE POLICIES BELOW.

COMPANIES AFFORDING COVERAGE

COMPANY
A GuideOne InsuranceCOMPANY
BCOMPANY
CCOMPANY
D**RECEIVED**
OCT 18 2011CONTINUING CARE
CONTRACTS BRANCH

INSURED
Brethren Hillcrest Homes
DBA: Hillcrest
2705 Mountain View Drive
La Verne CA 91750

COVERAGES

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	COVERED PROPERTY	LIMITS
	<input type="checkbox"/> PROPERTY				<input type="checkbox"/> BUILDING	\$
	<input type="checkbox"/> CAUSES OF LOSS				<input type="checkbox"/> PERSONAL PROPERTY	\$
	<input type="checkbox"/> BASIC				<input type="checkbox"/> BUSINESS INCOME	\$
	<input type="checkbox"/> BROAD				<input type="checkbox"/> EXTRA EXPENSE	\$
	<input type="checkbox"/> SPECIAL				<input type="checkbox"/> BLANKET BUILDING	\$
	<input type="checkbox"/> EARTHQUAKE				<input type="checkbox"/> BLANKET PERS PROP	\$
	<input type="checkbox"/> FLOOD				<input type="checkbox"/> BLANKET BLDG & PP	\$
	<input type="checkbox"/> INLAND MARINE					\$
	<input type="checkbox"/> TYPE OF POLICY					\$
	<input type="checkbox"/> CAUSES OF LOSS					\$
	<input type="checkbox"/> NAMED PERILS					\$
	<input type="checkbox"/> OTHER					\$
A	<input checked="" type="checkbox"/> CRIME	01201095	7/1/2010	7/1/2011	<input checked="" type="checkbox"/> Blanket Fidelity	\$ 250,000
	<input type="checkbox"/> TYPE OF POLICY				<input checked="" type="checkbox"/> Fidelity Deductible	\$ 250
	<input type="checkbox"/> FIDELITY COVERAGE					\$
	<input type="checkbox"/> BOILER & MACHINERY					\$
	<input type="checkbox"/> OTHER					\$

LOCATION OF PREMISES/DESCRIPTION OF PROPERTY

CERTIFICATE ISSUED TO VERIFY FIDELITY COVERAGE IN COMPLIANCE WITH HEALTH SECTION 1789.8.

SPECIAL CONDITIONS/OTHER COVERAGES

NOTE: 10 days notice of cancellation applies in the event of cancellation for non-payment of premium. All other reasons is 90 days notice of cancellation.

CERTIFICATE HOLDER

Department of Social Services
Attn: Allison Gerrior
744 P St., MS 10-90
Sacramento, CA 95814

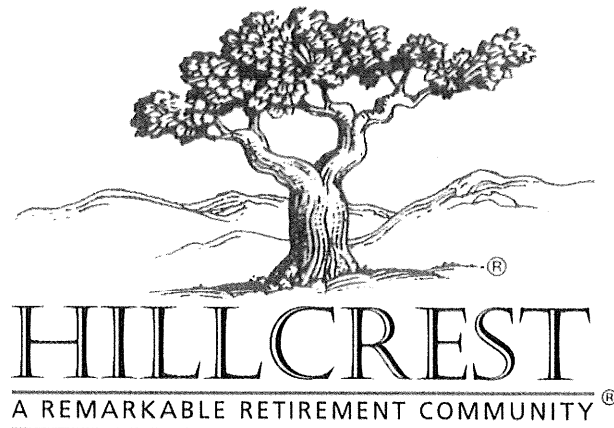
CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 90 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

J Parsons, CIC, CPIW/

PART 4
AUDITED FINANCIAL STATEMENTS



**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

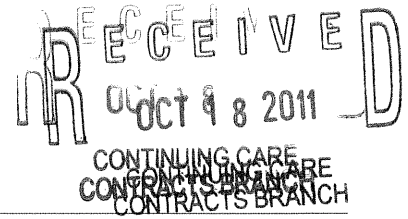
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HANSEN HUNTER & CO. P.C.

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brethren Hillcrest Homes
La Verne, California

We have audited the statements of financial position of Brethren Hillcrest Homes (a California not-for-profit corporation) as of June 30, 2011 and 2010 and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Brethren Hillcrest Homes' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brethren Hillcrest Homes, as of June 30, 2011 and 2010 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hansen Hunter & Co. P.C.

September 27, 2011

BRETHREN HILLCREST HOMES

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,073,064	\$ 1,793,073
Accounts receivable, net	578,398	673,517
Entrance fees receivable	509,697	-
Interest receivable	16,406	18,734
Inventory	52,029	62,021
Prepaid expenses and deposits	59,637	138,161
Total current assets	5,289,231	2,685,506
NON-CURRENT ASSETS		
Assets whose use is limited	14,011,763	16,122,595
Investments	175,981	105,799
Bond issue costs, net	1,739,955	1,820,883
Property, plant and equipment, net	69,291,501	69,556,317
TOTAL ASSETS	\$ 90,508,431	\$ 90,291,100

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

STATEMENTS OF FINANCIAL POSITION (Continued)

LIABILITIES AND NET ASSETS

	June 30,	
	2011	2010
CURRENT LIABILITIES		
Accounts payable	\$ 1,134,039	\$ 1,067,738
Accrued expenses	839,408	867,021
Refundable deposits	14,860	15,415
Prepaid residential fees	1,585,166	-
Current portion of long-term debt	880,000	845,000
Interest payable	971,003	982,895
Total current liabilities	<u>5,424,476</u>	<u>3,778,069</u>
NON-CURRENT LIABILITIES		
Long-term debt	42,185,000	43,065,000
Other long-term liability	290,626	306,772
Annuities payable	1,461,957	1,546,557
Repayable entrance fees	2,187,328	1,001,084
Deferred revenue from advance fees	<u>19,746,696</u>	<u>20,191,212</u>
TOTAL LIABILITIES	<u>71,296,083</u>	<u>69,888,694</u>
NET ASSETS		
Unrestricted	9,155,234	9,996,064
Temporarily restricted	3,117,794	3,418,492
Permanently restricted	<u>6,939,320</u>	<u>6,987,850</u>
TOTAL NET ASSETS	<u>19,212,348</u>	<u>20,402,406</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 90,508,431</u>	<u>\$ 90,291,100</u>

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS

	Years Ended June 30,	
	2011	2010
REVENUES		
Residential living	\$ 8,935,265	\$ 8,770,367
Birch Court	1,847,155	1,726,171
Woods Assisted Living	647,005	619,724
Southwoods Lodge	1,322,575	1,136,091
Woods Health Services	5,960,005	5,400,436
Telephone system	154,567	144,772
Rentals	76,803	67,357
Other revenue	741,363	820,278
Donations	234,439	213,385
Investment income	239,536	224,240
Net realized gains on investments	127,120	72,890
Present value adjustment of gift annuities payable	-	(2,776)
Net assets released from restrictions	424,102	375,686
Total revenues	<u>20,709,935</u>	<u>19,568,621</u>
EXPENSES		
Residential living	5,736,662	5,398,503
Birch Court	329,633	308,128
Woods Assisted Living	212,658	163,084
Southwoods Lodge	645,155	643,403
Woods Health Services	3,513,743	3,240,474
Aquatic & Fitness Center	298,102	234,285
Marketing and development	833,209	772,610
Management and general	1,432,198	1,848,896
Interest	2,611,857	2,643,560
Depreciation	2,637,144	2,503,736
Amortization	80,928	80,928
Insurance	371,231	352,297
Telephone system	218,969	197,002
Bad debt expense	89,665	50,000
Total expenses	<u>19,011,154</u>	<u>18,436,906</u>
Change in net assets from operations	1,698,781	1,131,715
Unrealized gains on investments	555,389	246,187
Unrealized loss on land investment	<u>(3,095,000)</u>	<u>-</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ (840,830)</u>	<u>\$ 1,377,902</u>

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended June 30,	
	2011	2010
UNRESTRICTED NET ASSETS		
Change in unrestricted net assets	\$ <u>(840,830)</u>	\$ <u>1,377,902</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	205,838	180,588
Present value adjustment of gift annuities payable	(82,434)	(48,795)
Net assets released from restrictions	<u>(424,102)</u>	<u>(375,686)</u>
Change in temporarily restricted net assets	<u>(300,698)</u>	<u>(243,893)</u>
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	33,904	26,080
Present value adjustment of gift annuities payable	<u>(82,434)</u>	<u>(151,065)</u>
Change in permanently restricted net assets	<u>(48,530)</u>	<u>(124,985)</u>
CHANGE IN NET ASSETS	(1,190,058)	1,009,024
NET ASSETS – BEGINNING OF YEAR	<u>20,402,406</u>	<u>19,393,382</u>
NET ASSETS – END OF YEAR	\$ <u><u>19,212,348</u></u>	\$ <u><u>20,402,406</u></u>

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents	\$ 17,769,517	\$ 15,481,263
Non-refundable entrance fees received	3,022,038	4,154,606
Contributions	179,764	213,385
Investment income received	368,984	300,343
Interest expense paid	(2,623,749)	(2,655,785)
Cash paid to suppliers and employees	(13,464,911)	(13,338,590)
Net cash provided by operating activities	5,251,643	4,155,222
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(2,372,328)	(2,504,460)
Change in assets whose use is limited	(498,961)	159,186
Net cash used by investing activities	(2,871,289)	(2,345,274)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment in endowment	33,904	26,080
Investment in temporarily restricted funds	205,838	180,588
Investment subject to annuity agreements	30,078	57,387
Other financing activities:		
Repayable entrance fees received	953,006	711,869
Entrance fees repaid	(253,318)	(532,865)
Bond principal payments	(845,000)	(815,000)
Payments on annuity obligations	(224,871)	(221,877)
Net cash used by financing activities	(100,363)	(593,818)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,279,991	1,216,130
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,793,073	576,943
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,073,064	\$ 1,793,073

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

(Continued)

RECONCILIATIONS OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Years Ended June 30,	
	2011	2010
CHANGE IN NET ASSETS	\$ (1,190,058)	\$ 1,009,024
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Amortization of entrance fees	(3,489,695)	(3,377,787)
Amortization of gift annuities	164,868	202,636
Depreciation	2,637,144	2,503,736
Amortization of bond issue costs	80,928	80,928
Amortization of other long-term liability	(16,146)	(16,146)
Restricted contributions	(239,742)	(206,668)
Net unrealized (gain) loss on investments	2,539,611	(246,187)
Other change in annuities payable	(54,675)	(24,450)
Non-refundable entrance fees received	3,022,038	4,154,606
(INCREASE) DECREASE IN OPERATING ASSETS		
Accounts receivable	95,119	240,000
Interest receivable	2,328	3,213
Inventory	9,992	(1,423)
Prepaid expenses and deposits	78,524	(81,174)
INCREASE (DECREASE) IN OPERATING LIABILITIES		
Accounts payable	66,301	43,558
Accrued expenses	(27,613)	(145,794)
Prepaid residential fees	1,585,166	-
Interest payable	(11,892)	12,225
Refundable deposits	(555)	4,925
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>5,251,643</u>	\$ <u>4,155,222</u>

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS:

Brethren Hillcrest Homes (Hillcrest) was incorporated in 1947 as a California tax-exempt not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, to operate a continuing care retirement community. Accordingly, contributions to Hillcrest qualify as deductible charitable contributions for income tax purposes. Residents of the retirement community receive housing and related services, including health care, based on individual contracts which may include an entrance fee, monthly fee or a daily fee for services provided. The facility, which is located in La Verne, California, services approximately 400 residents.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Hillcrest considers all highly liquid instruments, those with a maturity of three months or less at the time of purchase, to be cash equivalents, excluding assets whose use is limited. The carrying amount reported in the statements of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these financial instruments.

Accounts Receivable - Bad debts are accounted for by the allowance method. Hillcrest estimates the allowance based upon its experience. The allowance for doubtful accounts was \$154,828 and \$115,000 at June 30, 2011 and 2010, respectively. Accounts receivable over 90 days old were \$185,203 and \$174,259 at June 30, 2011 and 2010, respectively.

Inventory Valuation - Inventory, which primarily consists of dietary, housekeeping and office supplies, is recorded at cost based on the first-in/first-out method.

Assets Whose Use is Limited - Assets whose use is limited consist of cash, money market funds, land and other investments. The use of the Revenue Certificates of Participation Bonds Series 2003A and 2003B assets are legally restricted per the Revenue Certificates of Participation. These assets are reported at fair market value.

Investments - Hillcrest considers its investments in marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value. Donated investments are reported at fair value at the date of gift.

Realized gains and losses on dispositions are based on the sale proceeds versus the carrying value of the securities sold. Unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

Investment income is recorded net of related fees of \$38,295 and \$38,163 for the years ended June 30, 2011 and 2010, respectively.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Amortization of Entrance Fees - Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by the Revenue Recognition Topic of the FASB Accounting Standards Codification. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.6 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown on the balance sheet as deferred revenue. Current year activity of the unamortized portion of entrance fees is summarized as follows:

	Years Ended June 30,	
	2011	2010
Balance, beginning of year	\$ 20,191,212	\$ 20,724,238
Sale of contracts	3,298,497	3,377,626
Refunds	(253,318)	(532,865)
Amortization of continuing care contracts	(3,489,695)	(3,377,787)
Balance, end of year	\$ <u>19,746,696</u>	\$ <u>20,191,212</u>

Non-Refundable Fees - Hillcrest is obligated to refund a portion of entrance fees to residents who withdraw before fifty months. If the resident withdraws within three months, the entire entrance fee is refunded. Contracts are refundable over fifty months, with the refundable amount reduced by 2.00% per month.

Repayable Contracts - Hillcrest has eight contracts under a repayable entrance fee program that are entitled to a refund of 50% or 90% of the total entrance fee upon withdrawal or death after the unit is reoccupied.

The total liability for the repayable entrance fee contracts was \$2,187,328 and \$1,001,084 at June 30, 2011 and 2010 respectively.

Net Asset Classes - Hillcrest classifies its net assets into three categories: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets generally result from revenues from providing services, receiving unrestricted contributions and receiving dividend and interest income, less expenses incurred in providing services, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from Hillcrest's mission as defined in its articles of incorporation and bylaws.

Temporarily restricted net assets are limited by donors for specific purposes or the lapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by Hillcrest in perpetuity.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Net Asset Classes (continued) - Board designated amounts - Directors have designated certain unrestricted amounts for specific purposes. Amounts designated for operations and capital purposes were \$566,109 and \$500,520 at June 30, 2011 and 2010, respectively. Amounts designated for benevolent purposes were \$3,542,301 and \$2,870,480 at June 30, 2011 and 2010, respectively. Amounts designated as general board funds were \$263,287 and \$0 at June 30, 2011 and 2010, respectively. Inasmuch as these amounts have no donor restrictions, the Board may rescind the designation of these amounts at any time.

Net Patient Service Revenue - Hillcrest has agreements with third-party payors that provide for payments to Hillcrest at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net resident revenues from Medicare were \$770,444 and \$397,181 for the years ended June 30, 2011 and 2010, respectively. Net resident revenues from Medi-Cal were \$1,489,923 and \$1,225,466 for the years ended June 30, 2011 and 2010, respectively. Upon audit by the State or Medicare, there is a possibility of adjustment to costs reimbursed.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

Donated Services - Significant amounts of time from a number of people have been donated to Hillcrest. The accompanying financial statements do not reflect the value of those donated services as no reliable basis exists for reasonably determining the amounts involved.

Obligation to Provide Future Services - Annually, Hillcrest calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to expense. For the years ended June 30, 2011 and 2010, the calculation resulted in no future service liability. The discount rate used was 6%.

Gift Annuities - Hillcrest sponsors a charitable gift annuity program as part of its fund raising activities. All amounts received in exchange for these annuity contracts are segregated for accounting and investment purposes. Management has interpreted the agreements to require investment of the entire contract amount until the annuitant dies. At the time of death of the annuitant, the residuum is distributed to the designated net asset class as specified by the annuitant at the time the agreement was issued. If no designation was made, the residuum is distributed to the unrestricted net asset class.

Gift annuity contracts are a general liability of Hillcrest and are not limited to the segregated assets. The actuarially determined liability is calculated annually and adjusted accordingly. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. As a qualifying not-for-profit corporation, Hillcrest is authorized by the State of California to issue gift annuity contracts and is accordingly subject to applicable State laws and regulations.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Financial Instruments - Hillcrest's financial instruments consist of accounts receivable, entrance fees receivable, interest receivable, deposits, assets whose use is limited, investments, accounts payable, accrued expenses, refundable deposits, prepaid residential fees, interest payable, long-term debt, annuities payable and refundable entrance fees. It is management's opinion that Hillcrest is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

Concentration of Credit Risk - Hillcrest is a continuing care retirement community whose only campus is located in La Verne, California. Hillcrest charges monthly fees, on an unsecured basis, to its residents, all of whom live on campus.

Hillcrest has reserve funds, comprised of cash and equivalents and investments, located in various institutions. At times, the amount on deposit in some of the institutions exceeds the federally-insured limit.

Advertising - Advertising and marketing costs are charged to expense at the time they are incurred. Total advertising expense was \$86,812 and \$97,961 for the years ended June 30, 2011 and 2010, respectively.

Reclassifications - Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year's presentation.

Functional Expenses - The expenses of Hillcrest are presented according to their functional classification in the accompanying Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets. Fundraising expense was \$174,902 and \$155,962 for the years ended June 30, 2011 and 2010, respectively.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 3 – ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited are recorded at fair market value and consist of the following:

	June 30,	
	2011	2010
<i><u>Funds Held by Trustee</u></i>		
Reserve funds	\$ 3,667,937	\$ 3,667,200
Revenue/Sinking funds	1,254,405	1,254,484
Interest funds	-	74
	<u>4,922,342</u>	<u>4,921,758</u>
<i><u>Board Designated Funds</u></i>		
Benevolence	3,542,301	2,870,480
Operating reserve	566,109	500,520
General funds	263,287	-
	<u>4,371,697</u>	<u>3,371,000</u>
<i><u>Endowment Funds</u></i>		
Endowment funds	<u>1,632,105</u>	<u>3,577,129</u>
<i><u>Gift Annuities</u></i>		
Gift annuities funds	<u>2,055,839</u>	<u>1,943,946</u>
<i><u>Specific Purpose</u></i>		
Specific purposes funds	<u>998,971</u>	<u>2,277,953</u>
<i><u>Resident Association</u></i>		
Resident association funds	<u>30,809</u>	<u>30,809</u>
	<u>\$ 14,011,763</u>	<u>\$ 16,122,595</u>

The Board Designated Funds listed above are fully funded and will be used to help residents at Brethren Hillcrest Homes who need assistance to afford their monthly fees if approved by the Benevolence Committee.

There were no expenditures made from the Benevolence funds during the year ended June 30, 2011.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 3 – ASSETS WHOSE USE IS LIMITED (continued):

The assets are invested as follows:

	June 30,	
	2011	2010
<i><u>Funds Held by Trustee</u></i>		
Cash and money markets	\$ 4,922,342	\$ 4,921,758
<i><u>Board Designated Funds</u></i>		
Cash and money markets	365,646	72,978
Fixed income securities	2,256,656	1,887,887
Equity securities	1,749,395	1,410,135
	4,371,697	3,371,000
<i><u>Endowment Funds</u></i>		
Cash and money markets	39,690	13,305
Land	1,592,415	3,563,824
	1,632,105	3,577,129
<i><u>Gift Annuities</u></i>		
Cash and money markets	15,159	181,512
Fixed income securities	1,123,469	980,496
Equity securities	917,211	781,938
	2,055,839	1,943,946
<i><u>Specific Purpose</u></i>		
Cash and money markets	91,386	68,678
Fixed income securities	-	111,595
Equity securities	-	66,504
Land	907,585	2,031,176
	998,971	2,277,953
<i><u>Resident Association</u></i>		
Cash and money markets	30,809	30,809
	\$ 14,011,763	\$ 16,122,595

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 4 – BOND ISSUE COSTS:

Bond issue costs consist of the following:

	June 30,	
	2011	2010
Bond issue costs	\$ 2,427,844	\$ 2,427,844
Accumulated amortization	<u>(687,889)</u>	<u>(606,961)</u>
	<u>\$ 1,739,955</u>	<u>\$ 1,820,883</u>

Bond issue costs are amortized using the straight line method over the term of the related financing agreement. Future amortization of bond issue costs is as follows:

Fiscal Year Ended June 30,	Amount
2012	\$ 80,928
2013	80,928
2014	80,928
2015	80,928
2016	80,928
Thereafter	<u>1,335,315</u>
Total	<u>\$ 1,739,955</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT:

Acquisitions greater than \$500 and with an expected life of one year or more are capitalized at cost. When property is donated, it is valued at fair value at the date of the gift. Interest paid during the construction period of an asset is capitalized.

Depreciation is computed on the straight-line basis over estimated useful lives as follows:

Buildings	Principally 25 to 40 years
Plant and equipment	Principally 3 to 20 years

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (continued):

Property, plant and equipment are summarized as follows:

		June 30,
	2011	2010
Land and improvements	\$ 1,635,634	\$ 1,630,129
Master plan	387,618	387,618
Buildings and improvements	91,346,706	89,677,112
Furniture, fixtures, equipment and vehicles	4,101,257	3,965,880
	97,471,215	95,660,739
Less: accumulated depreciation	(29,026,510)	(26,443,274)
Subtotal	68,444,705	69,217,465
Construction-in-progress	846,796	338,852
Total	\$ 69,291,501	\$ 69,556,317

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

Hillcrest has adopted the requirements of the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification. This Topic defines fair value and requires enhanced disclosure about assets and liabilities carried at fair value. These additional disclosures are required only for financial assets and liabilities measured at fair value and for nonfinancial assets and liabilities measured at fair value on a recurring basis.

This Topic requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. It also specifies that transaction costs should not be considered in the determination of fair value. According to this Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

This Topic establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by this Topic are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs with models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

As required by this Topic, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair value of financial assets measured on a recurring basis as of June 30 are as follows:

Fair Value Measurements at Reporting Date Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Fair Value</u>				
<u>June 30, 2011</u>				
Investments	\$ 175,981	\$ -	\$ -	\$ 175,981
Assets whose use is limited				
Large cap equities	1,111,634	1,111,634	-	-
Mid cap equities	202,613	202,613	-	-
Small cap equities	454	454	-	-
International equities	788,022	788,022	-	-
Other equities	18,287	18,287	-	-
Fixed income – corporate/government	3,380,126	3,380,126	-	-
Real estate funds	195,661	195,661	-	-
Commodities	349,934	349,934	-	-
Land investment	<u>2,500,000</u>	<u>-</u>	<u>2,500,000</u>	<u>-</u>
	<u>\$ 8,722,712</u>	<u>\$ 6,046,731</u>	<u>\$ 2,500,000</u>	<u>\$ 175,981</u>
<u>June 30, 2010</u>				
Investments	\$ 105,799	\$ -	\$ -	\$ 105,799
Assets whose use is limited				
Large cap equities	803,884	803,884	-	-
Mid cap equities	71,115	71,115	-	-
International equities	977,181	977,181	-	-
Fixed income – corporate/government	2,925,972	2,925,972	-	-
Fixed income – international	54,006	54,006	-	-
Real estate funds	161,520	161,520	-	-
Commodities	244,877	244,877	-	-
Land investment	<u>5,595,000</u>	<u>-</u>	<u>5,595,000</u>	<u>-</u>
	<u>\$ 10,939,354</u>	<u>\$ 5,238,555</u>	<u>\$ 5,595,000</u>	<u>\$ 105,799</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

Assets measured at fair value on a recurring basis using significant unobservable inputs, Level 3 measurements, consist of the following:

	Investments
Balance at June 30, 2009	\$ 101,954
Interest income	835
Unrealized gains (losses)	<u>3,010</u>
Balance at June 30, 2010	105,799
Interest income	860
Unrealized gains (losses)	<u>69,322</u>
Balance at June 30, 2011	\$ <u>175,981</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets valued using Level 2 inputs are based on appraisals. Fair value for Level 3 assets is determined by the estimated equity value at year end.

NOTE 7 – PREPAID RESIDENTIAL FEES:

During the year ended June 30, 2011, Hillcrest offered private pay residents the option to prepay monthly fees at a discounted rate. The options included prepaying the monthly fees for one year at a 2% discount or prepaying the monthly fees for six months at a 1% discount. The total prepaid residential fees as of June 30, 2011 were \$1,585,166.

NOTE 8 – LONG TERM BOND DEBT:

On January 1, 2003, Hillcrest issued \$47,000,000 Revenue Certificates of Participation bonds. The Certificates were payable beginning February 15, 2007, with annual payments scheduled through February 15, 2033. Interest is payable semi-annually on August 15 and February 15, at interest rates ranging from 3.125% to 6.625%. The debt consists of six Serial Certificates which mature annually from February 15, 2007 to February 15, 2012. The interest rate is different for each Serial Certificate and ranges from 3.125% to 4.350%. There are two Term Certificates, one at the interest rate of 6.625% and one at 5.600% maturing February 15, 2025 and February 15, 2033, respectively. Each of the Term Certificates requires annual prepayments from sinking fund accounts starting February 15, 2013 through 2025 and from February 15, 2025 through 2033, respectively.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 8 – LONG TERM BOND DEBT (continued):

No Certificates are subject to optional prepayment prior to February 15, 2013. The Term Certificates maturing after February 15, 2013 are subject to mandatory prepayment from sinking funds prior to their stated Certificate Payment Date, as disclosed in the Official Statement. The Certificates will be prepaid at 100% of the principal amount of the Certificates called for prepayment, plus accrued interest with respect to the date fixed for prepayment. Non-scheduled prepayments during February 15, 2013 through February 15, 2014 will be priced at 101% and non-scheduled prepayments during February 15, 2014 through February 15, 2015 will be priced at 100.5%. There is no premium for non-scheduled redemptions after February 15, 2015.

The Certificates are secured by a pledge of Hillcrest's gross revenues, and further secured by a first deed of trust on a portion of Hillcrest's facilities, including real property.

Hillcrest has secured an investment grade rating from Standard & Poor's Rating Services of "BB" for the entire facility. The sale agreement requires Hillcrest to comply with various covenants, conditions and restrictions. A reserve fund has been established from the bond proceeds with the trustee in the amount of \$3,585,085.

The following table sets forth the amounts required to be made available at the principal payment date, or by mandatory prepayment, for the payment of interest with respect to the Certificates and for the principal due. Interest and total payments with respect to the Certificates:

Debt Service Due Fiscal Year	Principal and Mandatory Sinking Account Payment Due February 15		Interest Components Due February 15 and August 15		Total Payments
	Series A	Series B	Series A	Series B	
2012	\$ 880,000	\$ -	\$ 1,392,640	\$ 1,192,500	\$ 3,465,140
2013	-	920,000	1,354,360	1,192,500	3,466,860
2014	-	980,000	1,354,360	1,131,550	3,465,910
2015	-	1,045,000	1,354,360	1,066,625	3,465,985
2016	-	1,115,000	1,354,360	997,394	3,466,754
Thereafter	<u>24,185,000</u>	<u>13,940,000</u>	<u>19,274,360</u>	<u>4,991,275</u>	<u>62,390,635</u>
Totals	\$ <u>25,065,000</u>	\$ <u>18,000,000</u>	\$ <u>26,084,440</u>	\$ <u>10,571,844</u>	\$ <u>79,721,284</u>

Hillcrest has two covenants connected to their \$47,000,000 bond issue. A Debt Service Coverage Ratio of 1.30 is required at the end of each fiscal year. This covenant has been met.

The second covenant, a Days Cash On Hand covenant, requires 150 days of Cash on Hand each June 30 and December 31 until February 15, 2033. This covenant has been met.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 9 – OTHER LONG-TERM LIABILITY:

On June 8, 1998, Hillcrest entered into an agreement with the City of La Verne involving the cost of certain roadway improvements made to “B” Street, which runs along the eastern side of Hillcrest. The City of La Verne contributed \$82,117 of improvement costs to Hillcrest. Rather than requiring Hillcrest to pay cash to the City, the parties agreed that Hillcrest would set aside six residential units for “very low-income housing” for a term of 15 years per unit or a combination of very low-income housing and three lower-income housing units for every two very low-income housing units not occupied. Hillcrest has recorded the cost in fixed assets, and established a corresponding liability which is amortized over the 15 year term.

During the year ended June 30, 2008, Hillcrest and the City of La Verne agreed to extend this agreement. The City contributed an additional \$296,000 for improvements to Benton Street, and Hillcrest has set aside the agreed-upon units for an additional 15 years beyond the original agreement.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2011	2010
Fine Arts, Video, Naming	\$ 57,435	\$ 57,435
Minnie A. Trout Health Services Education	36,129	40,016
C.O.B. Ministers and Missionaries	115,643	199,171
Christian Service	107,735	107,717
Woods discretionary	(1,879)	20,681
Woods capital	5,410	-
Nurses training – Bowser	15,765	15,765
Entrance fee – Fasnacht	31,302	31,302
Benevolence	2,799,855	2,961,535
Village Tower	30,446	30,446
Dean Kieffaber Chapel	8,323	13,879
Mountain View furniture	402	402
Good Samaritan	35,675	1,000
Associates Emergency Fund	33	33
Book House	2,699	2,799
Chaplain’s foundation – Myrna Wheeler	315	815
Channel 3	16,306	-
Cultural arts society	3,138	-
Annuity contracts available for general purposes	(146,938)	(64,504)
	<u>\$ 3,117,794</u>	<u>\$ 3,418,492</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS (continued):

Temporarily restricted net assets were released for the following purposes:

	June 30,	
	2011	2010
Benevolent purposes	\$ 163,370	\$ 218,661
Good Samaritan purposes	136,676	138,535
Health services education	-	8,339
Woods Health Services refurbishing	19,590	-
Dean Kieffaber Chapel	5,777	6,214
Chaplain's foundation	1,200	3,600
Fine arts	9,455	337
Minnie Trout	3,886	-
C.O.B. Ministers	83,548	-
Book house	600	-
Total	\$ <u>424,102</u>	\$ <u>375,686</u>

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS:

Investment income from permanently restricted net assets is available for the following purposes:

	June 30,	
	2011	2010
Benevolence endowment	\$ 5,754,788	\$ 5,732,176
Benevolence annuity	582,783	665,217
Woods discretionary	38,628	38,628
Minnie A. Trout Health Services Education Fund	180,455	180,455
C.O.B. Ministers and Missionaries	123,151	123,151
Good Samaritan endowment	248,968	248,223
LKB professional development	10,547	-
Total	\$ <u>6,939,320</u>	\$ <u>6,987,850</u>

Hillcrest has borrowed from the temporarily and permanently restricted net assets to fund construction of new facilities since 2003.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 12 – DONOR-DESIGNATED ENDOWMENTS:

Hillcrest's endowments consist of the Benevolence and Good Samaritan endowments established to provide assistance to residents. The endowments include donor restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of Trustees of Hillcrest has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Hillcrest classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The policy of the board is that all investment income from the endowment funds are available for unrestricted assistance to residents. In accordance with UPMIFA, Hillcrest considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Hillcrest and (7) Hillcrest's investment policy.

Hillcrest has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Hillcrest must hold in perpetuity or for a donor-specified period.

Endowment net asset composition by type of fund as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,003,756</u>	\$ <u>6,003,756</u>

Changes in endowment net assets as of June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 5,980,399	\$ 5,980,399
Contributions	<u>-</u>	<u>-</u>	<u>23,357</u>	<u>23,357</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,003,756</u>	\$ <u>6,003,756</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 12 – DONOR-DESIGNATED ENDOWMENTS (continued):

Endowment net asset composition by type of fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,980,399</u>	\$ <u>5,980,399</u>

Changes in endowment net assets as of June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 5,978,732	\$ 5,978,732
Contributions	<u>-</u>	<u>-</u>	<u>1,667</u>	<u>1,667</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,980,399</u>	\$ <u>5,980,399</u>

NOTE 13 – LEASE INCOME:

Hillcrest leases approximately nine acres of open land to a nursery, pursuant to a lease dated July 9, 1998. The land was originally purchased in December 2001 for \$2,069,350. The lease automatically renews every five years. Hillcrest may adjust the per-month rent payment annually on July 1. The monthly rental payment was increased from \$1,698 to \$1,998 as of July 1, 2010. The amounts received for the years ended June 30, 2011 and 2010 were \$23,976 and \$20,376, respectively. The future minimum lease payments are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 23,976
2013	<u>23,976</u>
Total	\$ <u>47,952</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 14 – PENSION AND ANNUITY PLANS:

Hillcrest provides a pension plan for employees under Section 403(b) of the Internal Revenue Code. All full-time employees are eligible to participate however, an employee must be 21 years of age and have been employed for one year in order to receive employer contributions. Employees may voluntarily contribute a portion of their salary to the plan, subject to certain limitations. Hillcrest contributed 6% on behalf of each eligible employee from July 2010 through April 2010. The contribution percentage was reduced to 3% in May, 2010 and remained at 3% during the year ended June 30, 2011. Hillcrest's total cost for this pension plan was \$185,956 and \$259,560 for the years ended June 30, 2011 and 2010, respectively.

NOTE 15 – RELATED PARTIES:

Hillcrest purchased general and professional liability insurance for premiums of \$177,587 and \$174,386 for the years ended June 30, 2011 and 2010, respectively. The insurance was purchased from an insurance company of which Hillcrest is a shareholder. At June 30, 2011 and 2010, Hillcrest's investment was \$146,965 and \$80,549, respectively. This amount is included in investments at cost because it represents less than 5% of the shares of the insurance company.

Hillcrest purchased workers' compensation insurance for premiums of \$388,436 and \$405,032 for the years ended June 30, 2011 and 2010, respectively. The insurance was purchased through a group self-insurance program of which Hillcrest is a member. The group insurance program is governed by the California Department of Industrial Relations. A Hillcrest officer is a member of its Audit Committee.

NOTE 16 – CHARITY CARE:

Hillcrest maintains records to identify and monitor the level of charity care it provides. These records indicate the difference between Hillcrest's customary charge and the rate paid by Medi-Cal or Supplemental Security Income (SSI), as well as charity care for residents. Residents' charity care is supported through Benevolence donations and earnings on endowment resources.

The following information measures the level of voluntary charity care provided for the years ended June 30, 2011 and 2010:

	Years ended June 30,	
	2011	2010
Related to residents:		
Nursing facility	\$ 67,910	\$ 69,512
Assisted living	72,223	122,519
Residential living	41,506	24,846
	<u>181,639</u>	<u>216,877</u>
Related to community residents	<u>411,573</u>	<u>340,570</u>
Total	\$ <u>593,212</u>	\$ <u>557,447</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 17 – COMMITMENTS:

Since July 30, 2008, Hillcrest has been party to an operating lease for a telephone system, which includes insurance and maintenance and expires July 30, 2013. At the end of the lease term, Hillcrest may renew the lease for an additional three years at 50% of the previous month's lease cost, or purchase the equipment at the fair market value. Amounts paid for the years ended June 30, 2011 and 2010 were \$112,242 and \$110,628, respectively. Minimum lease payments are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 99,168
2013	99,168
2014	<u>8,264</u>
Total	\$ <u>206,600</u>

NOTE 18 – CONTINGENCY:

Hillcrest is subject to various claims for damages that arise in the normal course of business. All claims have been referred to Hillcrest's insurance carrier and are in various stages of investigation, discovery or pretrial. In management's opinion, although the outcomes of these claims are unknown at this time, any losses that may occur would be covered by Hillcrest's insurance company, and therefore, should not have a material impact on Hillcrest's financial position or activities.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations relate to, among other things, matters such as licensure, accreditation, and government health care program participation requirements, regulations regarding reimbursement for patient services and regulations regarding Medicare and Medi-Cal billing, fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of statutes and regulations by health care providers, which could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Hillcrest is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 19 – MARKET VALUE ADJUSTMENT OF LAND:

Hillcrest holds land for investment in the endowment and specific purpose funds. The land was appraised in 2011 at \$2,500,000. The decrease in the appraised value of the land resulted in a \$3,095,000 unrealized loss on the statement of activities. The land is carried at the appraised value in assets whose use is limited.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 20 – SUBSEQUENT EVENTS:

Per CMS SNF-PPS Final Rule for the 2012 year end, Medicare rates will be cut an average of 11.1% effective October 1st, 2011 for skilled nursing facilities. The actual Medicare cut will vary based on the Medicare case mix. In addition, the State of California passed a bill that will require Medi-Cal to withhold 10% of reimbursements effective June 1st 2011 through July 31st 2012. The bill requires that the withholdings be repaid to facilities in December of 2012.

Hillcrest did not have any other subsequent events through September 27, 2011, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended June 30, 2011.

PART 5
LIQUID RESERVES

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	01/01/2003	\$845,000	\$2,623,749		\$3,468,749
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$2,623,749		\$3,468,749

(Transfer this amount to
Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: BRETHREN HILLCREST HOMES

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over Next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:					\$0

*(Transfer this amount to
Form 5-3, Line 2)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: BRETHREN HILLCREST HOMES

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$3,468,749
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$0
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$3,468,749

PROVIDER: BRETHREN HILLCREST HOMES

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		\$19,011,154
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	\$2,623,749	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	\$0	
c.	Depreciation	\$2,637,144	
d.	Amortization	\$80,928	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$6,671,574	
f.	Extraordinary expenses approved by the Department	\$0	
3	Total Deductions		\$12,013,395
4	Net Operating Expenses		\$6,997,759
5	Divide Line 4 by 365 and enter the result.		\$19,172
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		\$1,437,900
PROVIDER: BRETHREN HILLCREST HOMES			
COMMUNITY: HILLCREST			

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E)	\$ 6,671,574
Revenues received from residents	<u>11,097,943</u>
Cash received from residents per direct method cash flow	\$ <u>17,769,517</u>

FORM 5-5 **ANNUAL RESERVE CERTIFICATION**

Provider Name: **BRETHREN HILLCREST HOMES**

Fiscal Year Ended: **JUNE 30, 2011**

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended **JUNE 30, 2011** and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year June 30, 2011 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$3,468,749
[2] Operating Expense Reserve Amount	\$1,437,900
[3] Total Liquid Reserve Amount:	\$4,906,649

Qualifying assets sufficient to fulfill the above requirements are held as follows:

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	\$0	\$4,438,710
[5] Investment Securities	\$0	\$2,256,656
[6] Equity Securities	\$0	\$1,749,395
[7] Unused/Available Lines of Credit	\$0	\$0
[8] Unused/Available Letters of Credit	\$0	\$0
[9] Debt Service Reserve	\$4,922,342	(not applicable)
[10] Other:	\$0	\$0
<hr/>		
(describe qualifying asset)		
<hr/>		
Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11] style="text-align: right;">\$4,922,342	[12] style="text-align: right;">\$8,444,761
Reserve Obligation Amount:	[13] style="text-align: right;">\$3,468,749	[14] style="text-align: right;">\$1,437,900
Surplus/(Deficiency):	[15] style="text-align: right;">\$1,453,593	[16] style="text-align: right;">\$7,006,861

Signature:


(Authorized Representative)

Date:

10/14/11

Matthew Neeley, CEO

(Title)

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that the Organization should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:'

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, the Organization has computed its liquid reserve requirement as of June 30, 2011, the Organizations' most recent fiscal year end, and the reserve is based on audited financial statements for that period.

PART 6
CONTINUING CARE RETIREMENT COMMUNITY
DISCLOSURE STATEMENT

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 10/15/2011

RECEIVED
OCT 18 2011

FACILITY NAME: BRETHREN HILLCREST HOMES

ADDRESS: 2705 MOUNTAIN VIEW DRIVE, LA VERNE, CA

ZIP CODE: 91750

PHONE: (909) 593-4917

PROVIDER NAME: BRETHREN HILLCREST HOMES

FACILITY OPERATOR: BRETHREN HILLCREST HOMES

RELATED FACILITIES: NONE

RELIGIOUS AFFILIATION: CHURCH OF THE BRETHREN

YEAR OPENED: 1949 NO. OF ACRES: 51

MULTI-STORY: _____ SINGLE STORY: _____ BOTH: X

MILES TO SHOPPING CTR: 1

MILES TO HOSPITAL: 2

NUMBER OF UNITS:

INDEPENDENT LIVING

APARTMENTS - STUDIO 8
APARTMENTS - 1 BDRM 83
APARTMENTS - 2 BDRM 147
THREE/FOUR BEDROOMS 7

HEALTH CARE

ASSISTED LIVING 14
SKILLED NURSING 74
SPECIAL CARE 24
ALZHEIMER'S &
DESCRIBE SPECIAL CARE: DEMENTIA

% OCCUPANCY AT YEAR END 92.3%

TYPE OF OWNERSHIP: ☒ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☐ Y ☒ N BY: _____

FORM OF CONTRACT: ☐ LIFE CARE ☒ CONTINUING CARE ☐ FEE FOR SERVICE

☐ ASSIGN ASSETS ☐ EQUITY ☒ ENTRY FEE ☒ RENTAL

REFUND PROVISIONS (Check all that apply): ☒ 90% ☐ 75% ☒ 50% ☒ PRORATED TO 0% ☐ OTHER: _____

RANGE OF ENTRANCE FEES: \$ 92,870 TO \$ 549,200 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☒ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: NO

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: _____

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

SERVICES AVAILABLE

	AVAILABLE	FEE FOR SERVICE		INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	YES - 2	YES
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	YES - 2	YES
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	YES	YES
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL - INDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL - OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION -PERSONAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors. Page 1 of 4

PROVIDER NAME: BRETHREN HILLCREST HOMES

CCRCs	LOCATION (City, State)	PHONE (with area code)

MULTI-LEVEL RETIREMENT COMMUNITIES		

FREE-STANDING SKILLED NURSING		

SUBSIDIZED SENIOR HOUSING		

*PLEASE INDICATE IF THE FACILITY IS LIFE CARE.

PROVIDER NAME: BRETHREN HILLCREST HOMES

	2007/08	2008/09	2009/10	2010/11
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(excluding amortization of entrance fee income)	\$ 15,078,630	\$ 14,477,667	\$ 16,223,636	\$ 17,541,190
LESS OPERATING EXPENSES				
(excluding depreciation, amortization, & interest)	13,483,625	13,257,123	13,208,682	13,681,225
NET INCOME (LOSS) FROM OPERATIONS	1,595,005	1,220,544	3,014,954	3,859,965
LESS INTEREST EXPENSE	2,483,369	2,719,250	2,643,560	2,611,857
PLUS CONTRIBUTIONS	386,494	505,426	213,385	234,439
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)				
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	\$ (501,870)	\$ (993,280)	\$ 584,779	\$ 1,482,547
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	\$ 4,199,324	\$ 2,859,438	\$ 4,333,610	\$ 3,721,726

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
BOND ISSUE	\$43,065,000	VAR	1/07/03	2/2033	30 YEARS

FINANCIAL RATIOS (see next page for ratio formulas)

	2010 CCAC Medians 50 th Percentile (optional)	6/30/2009	6/30/2010	6/30/2011
DEBT TO ASSET RATIO		48.65	47.70	46.61
OPERATING RATIO		1.03	.99	.96
DEBT SERVICE COVERAGE RATIO		1.44	2.09	2.07
DAYS CASH-ON-HAND RATIO		87	119	189

HISTORICAL MONTHLY SERVICE FEES

AVERAGE FEE AND PERCENT CHANGE

	2008	%	2009	%	2010	%	2011
STUDIO/CONGREGATE	\$1,431	(13)%	\$1,252	2%	\$1,277	0%	\$1,277
ONE BEDROOM	\$1,733	1%	\$1,755	2%	\$1,787	2%	\$1,823
TWO BEDROOM	\$2,081	18%	\$2,462	2%	\$2,511	2%	\$2,561
THREE/FOUR BEDROOM	\$2,466	24%	\$3,059	2%	\$3,120	2%	\$3,182
ASSISTED LIVING	\$3,851	(6)%	\$3,638	2%	\$3,860	2%	\$3,937
SOUTHWOODS LODGE	\$4,741	(7)%	\$4,400	2%	\$4,488	2%	\$4,578
WOODS HEALTH CENTER	\$5,658	17%	\$6,630	2%	\$6,996	2%	\$7,135

COMMENTS FROM PROVIDER: Fees vary according to size of unity and amenities provided. Entrance fees may apply on studio, one and two bedrooms and cottage/houses. Dollar values are from Continuing Care Contracts. "Average fees" are for the units available at the time of pricing.

PROVIDER NAME: BRETHREN HILLCREST HOMES

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \text{-- Depreciation Expense} \\ \text{-- Amortization Expense} \end{array}}{\begin{array}{l} \text{Total operating Revenues} \\ \text{-- Amortization of Deferred Revenue} \end{array}}$$

Debt Service Coverage Ratio

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation} \\ \text{and Amortization Expenses} \\ \text{-- Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{And Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{(\text{Operating Expenses -- Depreciation} \\ \text{- Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

PART 7
REPORT ON CCRC MONTHLY SERVICE FEES

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$690 - \$4,995</u>	<u>\$3,940 - \$6,567</u>	<u>\$6,175 - \$7,135</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>0-2%</u>	<u>2%</u>	<u>2%</u>

☐ Check here if monthly service fees at this community were not increased during the Reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: July 1, 2010
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- ☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- ☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- ☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- ☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- ☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- ☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase

PROVIDER: BRETHREN HILLCREST HOMES

COMMUNITY: HILLCREST

BRETHREN HILLCREST HOMES

FORM 7-1 *Explanations for Adjustments in Monthly Fees*

- Summary of Documents Used in Determining Rate Adjustment

Resident fee increases are only arrived at after reviewing projected costs, prior year per capita costs, and economic conditions. Each of our 24 departments begins by analyzing their current status. Reviewing what their expenditures for the current year have been versus their budget and what their scheduled costs will be for the remainder of the current year. These costs and projections are reviewed with management before any work is done on next year's budget. Known trends, such as the effect of raw material costs, consumer price indexes, future market prices, etc. are used in analyzing and forecasting the remaining months of the current year.

A zero based budget is then used to identify all of the components of the coming year. The first cost each department has to grapple with is labor which comprises over 60% of the total budget. Compiling labor with the remaining department projected costs becomes the forecasted budget.

Revenue is also reviewed for the current year to date, and projected for the remaining months of the current year. Revenue includes turnover, expansion and fee increases. Again, economic indicators including the consumer price index, cost of living adjustments proposed for social security and other indicators of revenue affecting current and future residents are all reviewed and analyzed. Revenue is projected for the balance of the current year before next year's budget is formulated.

Combining projected costs with anticipated revenue while meeting economic indicators for performance are all factors which we employ when proposing a fee change. Fee increases and budget projections of costs after being analyzed by management are reviewed by the Finance Committee, the Board, Resident Association, and an open forum with residents, with each resident individually by letter of notification, in a second public meeting with interested residents and in private meetings as requested.

BRETHREN HILLCREST HOMES

H&SC SECTION 1790(a)(2) and (3) DISCLOSURE

▪ Description of all Reserves Maintained

	JUNE 30,	
	2011	2010
<u>Funds Held by Trustee</u>		
<i>2003Bond funds:</i>		
Reserve funds	\$ 3,667,937	\$ 3,667,200
Revenue/Sinking funds	1,254,405	1,254,484
Interest fund	-	74
	<u>4,922,342</u>	<u>4,921,758</u>
<u>Board Designated Funds</u>		
Benevolence	3,542,301	2,870,480
Operating reserve	566,109	500,520
General funds	<u>263,287</u>	<u>-</u>
	<u>4,371,697</u>	<u>3,371,000</u>
<u>Other Limited Uses</u>		
Endowment funds	1,632,105	3,577,129
Gift annuities funds	2,055,839	1,943,946
Specific purposes funds	998,971	2,277,953
Resident Association funds	<u>30,809</u>	<u>30,809</u>
	<u>4,717,724</u>	<u>7,829,837</u>
	<u>\$ 14,011,763</u>	<u>\$ 16,122,595</u>

Status: These funds are fully funded.

▪ Funds Accumulated for Specific Projects or Purposes

- The benevolence funds will be used to provide residence assistance
- The operating reserve is used for operations
- Investments returns on the endowment funds are set aside for operations
- The gift annuities funds are set aside for payment of gift annuities
- The specific purpose funds are set aside for specific projects

▪ Per Capita Cost of Operations

Total operating Expenses (Form 5-4, Line 1)	\$ 19,011,154
Mean number of all residents (Form 1-1 Line 10)	<u>412</u>
	<u>\$ 46,144</u>

PART 8
KEY INDICATORS REPORT

Date Prepared: 10/5/2011

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

KEY INDICATORS REPORT BRETHREN HILLCREST HOMES FISCAL YEAR ENDED JUNE 30, 2011

RECEIVED
OCT 18 2011
CONTINUING CARE
CONTRACTS BRANCH


Chief Executive Officer Signature

	2005	2006	2007	2008	2009	2010	2011	Projected	2012	2013	2014	Preferred Trend Indicator
OPERATIONAL STATISTICS												
1. Average Annual Occupancy by Site (%)	92.9%	93.3%	97.1%	95.0%	92.50%	90.5%	92.3%	92.5%	92.5%	93.0%	93.5%	N/A
MARGIN (PROFITABILITY) INDICATORS												
2. Net Operating Margin (%)	0%	2%	-6%	0%	10%	16%	18%	12%	12%	13%	14%	↑
3. Net Operating Margin - Adjusted (%)	26%	14%	26%	23%	25%	34%	33%	30%	30%	34%	34%	↑
LIQUIDITY INDICATORS												
4. Unrestricted Cash and Investments (\$000)	13,619	8,935	6,581	4,916	3,812	5,164	8,445	8,851	8,851	8,867	10,416	↑
5. Days Cash on Hand (Unrestricted)	438	276	170	31	91	119	189	191	191	188	216	↑
CAPITAL STRUCTURE INDICATORS												
6. Deferred Revenue from Entrance Fees (\$000)	16,530	16,215	18,833	20,080	20,724	20,191	19,747	19,302	19,302	18,858	18,413	N/A
7. Net Annual E/F proceeds (\$000)	4,010	1,732	5,237	4,199	2,859	4,334	3,722	4,249	4,249	5,250	5,250	N/A
8. Unrestricted Net Assets (\$000)	8,508	11,328	7,208	6,079	8,800	9,996	9,155	9,583	9,583	11,031	12,812	N/A
9. Annual Capital Asset Expenditure (\$000)	10,059	9,840	10,182	4,378	2,665	2,504	2,372	2,567	2,567	2,500	2,500	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	.48	.16	.23	.46	.49	.85	1.01	.64	.64	.71	.77	↑
11. Annual Debt Service Coverage (x)	6.61	.86	1.79	1.69	1.30	2.09	2.07	1.83	1.83	2.20	2.23	↑
12. Annual Debt Service/Revenue (%)	0.00	0.00	.13	.28	.20	.18	.17	.18	.18	.17	.16	↓
13. Average Annual Effective Interest Rate (%)	1.39%	5.32%	5.69%	5.77%	5.97%	6.05%	6.09%	6.29%	6.29%	6.17%	6.32%	N/A
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	29%	19%	15%	11%	9%	12%	20%	21%	21%	22%	27%	↑
15. Average Age of Facility (years)	10.26	11.71	10.25	9.39	9.86	10.56	11.01	12.95	12.95	13.53	14.09	↓